

MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, Indiana 46204
March 18, 2005

EXECUTIVE SESSION

Trustees Present

Jonathan Birge, Chair
Garland Ferrell, Trustee
Robert Welch, Trustee

Others Present

Jim Hartman, Clifton Gunderson,
Michelle Hartman, Clifton Gunderson
Enrico Tolentino, Clifton Gunderson

PERF STAFF

David Adams, Executive Director
Bruce Kimery, Deputy Director/Chief Benefits Officer
Leisa Julian, General Counsel

REGULAR SESSION

Trustees Present

Richard Doermer, via phone
Jonathan Birge, Chair
Garland Ferrell, Trustee
Robert Welch, Trustee

Others Present

Mary Beth Braitman, Ice Miller
Douglas Todd, McCready & Keene
Richard Lenior, McCready & Keene
Elaine Beaty, McCready & Keene
Douglas Kryscio, Mercer

PERF STAFF Present

David Adams, Executive Director
Bruce Kimery, Deputy Director/Chief Benefits Officer
Bruce Fink, Chief Investment Officer
Michael Horstman, Chief Financial Officer
Clay Jackson, Chief Internal Auditor
Leisa Julian, General Counsel
Patrick Lane, Director of External Affairs

Linda Villegas, Staff Attorney
Douglas Wesley, Senior Investment Officer
Jerry Porter, Executive Assistant to the Board

I. APPROVAL OF THE MINUTES

MOTION duly made and carried to approve the Minutes of the February 25, 2005, Board of Trustees meeting.

Proposed by: *Garland Ferrell*
Seconded by: *Bob Welch*
Votes: *Four in favor, 0 against, 0 abstentions*

MOTION duly made and carried to approve the Minutes of the March 8, 2005 Board of Trustees meeting.

Proposed by: *Garland Ferrell*
Seconded by: *Bob Welch*
Votes: *Four in favor, 0 against, 0 abstentions*

II. OLD BUSINESS

A. Legislative Update

- Ms. Julian reported updates on the Bill Status Report. She reported on the Budget Bill that a COLA is being proposed for our retirees, as well as a thirteenth check and to extend the \$180.00 benefit to include members in the past year.
- **HB1346** – This is the deferred compensation bill. There is an amendment being considered to add 401(h) retirement medical savings accounts for state employees who have accrued unused vacation time that they can convert.
- **HB1600** Special Death Benefit Fund for Private University Police Officers and Firefighters – Passed through all committee hearings and both houses and is awaiting the approval of the Governor.
- **HB149** – This bill adds the State Budget Director or his designee as a member of the Board of Trustees. It was amended and the language changed from designee to permanent designee. It removes the \$450.00 compensation fee per quarter to the trustees and only allows for reimbursement of expenses that have actually occurred.
- Mr. Birge asked what is the effect of Senate Bill 259. Ms. Julian responded that currently the Board has the power to make its own rules. This bill would bring PERF back into the rule making procedures set for all state agencies.

- Mr. Birge asked Ms. Julian to report on HB298. She reported that when a rule is submitted that has a estimated economic impact greater than \$500,000 that a fiscal impact statement would need to be provided.

II. NEW BUISNESS

A. Line of Duty Death

- Mr. Parker reported a line-of-duty death claim was received from Thomas L. Cochran on January 25, 2005. While working on an assignment, Detective Cochran was dispatched to assist other Lawrenceburg police officers with a suicidal subject. Mr. Cochran left the alarm call and was responding to the assistance call when he came upon a patch of ice on the roadway, causing him to lose control of his vehicle. He was involved in a one-car accident in which he was thrown from his patrol car and later died from the injuries sustained in the accident. The provision for the line-of-duty death benefit of \$150,000 is paid from the Pension Relief Fund.

MOTION duly made and carried to approve the line-of-duty death claim for Thomas L. Cochran in the amount of \$150,000.

<i>Proposed by:</i>	<i>Bob Welch</i>
<i>Seconded by:</i>	<i>Garland Ferrell</i>
<i>Votes:</i>	<i>Four in Favor, 0 against, 0 abstentions</i>

- Mr. Parker reported a line-of-duty death claim was received for Craig Herbert. On March 5, 2005, Sgt. Troutt of the Lawrence Police Department was following a stolen vehicle southbound on Woodcroft turning east onto 46th Street. As the vehicle turned east it began to accelerate rapidly as it topped the bridge over I-465. Sgt. Troutt activated her red lights and siren and advised other units the vehicle was fleeing eastbound on 46th Street. The officer riding with Sgt. Troutt advised other units that the stolen vehicle accelerated at the railroad crossing and then went airborne approximately 10-15 feet in the air. Sgt. Troutt observed the stolen vehicle had struck a Lawrence police car driven by Officer Craig Herbert. Following an unsuccessful attempt to apprehend the driver of the stolen vehicle, Sgt. Troutt went over to Officer Herbert's vehicle and observed his body across the front seat of the car, and he was later pronounced dead. The provision for the line-of-duty death benefit of \$150,000 is paid from the Pension Relief Fund.

MOTION duly made and carried to approve the line-of-duty death claim for Craig S. Herbert in the amount of \$150,000.

*Proposed by: Garland Ferrell
Seconded by: Richard Doermer
Votes: Four in favor, 0 against, 0 abstentions*

- Mr. Parker presented a line-of-duty death claim for Robert A. Zell, an employee of the Indiana Department of Transportation, Crawfordsville District. On February 3, 2005, Mr. Zell and another INDOT employee were assigned to the work detail of picking up litter. While crossing the Wabash River Bridge they spotted a hubcap lying on the right shoulder of the road against a bridge wall. They proceeded on past the litter to the end of the bridge. Mr. Zell pulled the truck over onto the right shoulder with about half the truck parked on the asphalt shoulder and the other half parked off the shoulder in the grass. He then proceeded to exit the truck on the driver's side and walked on the shoulder down the bridge to retrieve the litter. A private vehicle made an unsafe lane movement according to the State Police report and collided with another private vehicle and then started sliding out of control and struck Mr. Zell. Upon arrival of medical assistance, Mr. Zell was then transported to the St. Elizabeth Hospital in Lafayette where he was pronounced dead shortly after his arrival. This benefit is in the amount of \$50,000.

MOTION duly made and carried to approve the line-of-duty death claim for Robert A. Zell in the amount of \$50,000.

*Proposed by: Richard Doermer
Seconded by: Garland Ferrell
Votes: Four in favor, 0 against, 0 abstentions*

B. Service Purchase Policy

- Ms. Julian reported that under this proposed policy, a member who has earned at least ten years of service in a position covered by the Public Employees' Retirement Fund, the Teachers Retirement Fund, or a combination of the two funds, may purchase one year of service credit for each five years of service that the member has completed in a PERF or TRF covered position on an installment plan if the member is purchasing more than one year of service. The purpose of this policy is to set forth the rules governing such service purchases

on an installment plan. It is the staff's intent to later take this through the rule making process.

MOTION duly made and carried to approve the Service Purchase Policy.

<i>Proposed by:</i>	<i>Bob Welch</i>
<i>Seconded by:</i>	<i>Garland Ferrell</i>
<i>Votes:</i>	<i>Four in favor, 0 against, 0 abstentions</i>

IV. COMMITTEE REPORTS/RECOMMENDATIONS

A. Investment Committee

- Mr. Doermer reported there were two items being recommended by the Committee to the Board. One is that the Board terminate the investment relationship between the Board and Brown Investment Firm entirely on the basis of weak performance against its benchmark. At the same time, the Committee recommends for that portfolio to be distributed to the two remaining mid-cap managers, Wells Capital Management and Brandes Investment Partners, and that the Board should employ a transition manager to effect the orderly distribution of those funds to the two firms.
- Mr. Birge stated that all those items are enclosed in the adopted resolution 05-02. He asked Mr. Welch to read the resolution into the record. Mr. Welch read the following:

Resolution No. 05-02 of the Board of Trustees of the Public Employees' Retirement Fund.

WHEREAS, on July 24, 2002, the Board of Trustees of the Public Employees' Retirement Fund of Indiana hired Brown Capital Management (hereinafter referred to as "Brown") to manage a portfolio of securities comprised of mid and small size companies (hereinafter referred to as the "Brown Portfolio");

WHEREAS, Brown has under-performed its assigned benchmark by 730 basis points on an annualized basis (net of fees and as of 12/31/04) since its date of hire;

WHEREAS, in accordance with Section 7 of the Investment Policy, the Board of Trustees has evaluated Brown's investment performance and considers such performance to be unsatisfactory;

NOW THEREFORE, BE IT RESOLVED by the Board of Trustees of the Public Employees' Retirement Fund that:

SECTION 1. Based on its evaluation of Brown's investment performance, and upon the advice of staff and Mercer Consulting, the Board hereby approves the termination of Brown's discretionary trading authority over the Brown Portfolio, effective 4:00pm EST on March 18, 2005.

SECTION 2. The assets held in Brown's account at JP Morgan shall be transferred to a separate transition account also to be held by JP Morgan.

SECTION 3. The Chief Investment Officer is hereby authorized to hire a transition manager from the pool of pre-approved transition managers that have executed the Optional-Use Contract for Transition Management Manager.

SECTION 4. Brown shall be terminated as investment manager concurrent with the hiring of the transition manager under Section 3.

SECTION 5. The transition manager hired under Section 3 is authorized to manage the transition account and effect all trades necessary to create the desired portfolio.

SECTION 6. Brandes Investment Partners, LLC (hereinafter referred to as "Brandes") and Wells Capital Management (hereinafter referred to as "Wells") are hereby approved as permanent investment managers for the assets formerly managed by Brown.

SECTION 7. The amount transferred to Brandes shall not exceed \$50 million, and the amount transferred to Wells shall not exceed \$180 million.

SECTION 8. Any amounts remaining in the transition account after the transition is completed shall be transferred to the reallocation account held at JP Morgan.

MOTION duly made and carried to adopt Resolution 05-02 as read.

Proposed by:
Seconded by:
Votes:

Richard Doermer
Garland Ferrell
Four in favor, 0 against, 0 abstentions

B. Audit & Budget Committee

- Mr. Ferrell reported that the Audit and Budget Committee met and discussed those activities that they'd been doing and some updates on things that they intend to do, namely Risk Assessment for FY06, the Quality Assurance Review, User Desktop Procedures, Customer Survey Audit, the SIRIS User Review Report and the 05 Audit Plan Update. Mr. Kimery also discussed the Agency Audit Plan Update as well as the plans for the Budget. Mr. Ferrell stated that there were no items for vote or action.

Since there were no comments or questions, Mr. Birge asked Mr. Kimery to proceed with the Operations Update.

- Mr. Kimery began the Operations Update by discussing how the workflow would be increasing due to the processing of the June retirement refunds. He reminded the committee that the huge spike in January was due to the 3,200 automatic refunds for accounts with less than \$200. He stated that since December, the number of refunds has continued to grow exponentially. He stated that PERF's goal is to pay members within 30 days and that we are currently approximately 5 days over that goal. Mr. Kimery also informed the Board that John Reiman is now the Supervisor for the Operations Department due to the retirement of Charles Moore.
- Mr. Kimery reported that as of August some changes have been made in the retirement application process. We are now taking retirement applications six months in advance and the Employer Letter Certification is provided separately; therefore, the number of applications in-house has grown. PERF's staff is currently working on plans to handle the increase in June in order for applications to be processed on a timely basis. He stated that we are currently paying some of our members as early as 45 days, but unfortunately, there are still some people getting paid in excess of 60 days.
- The Membership Record process was changed, and Mr. Kimery hopes to have a different way to display the workflow input/output by the next Board meeting. Due to the large turnover of retirees and new hires in state government, Mr. Kimery stated that staff should be sure that new member

records are processed so when the members wage and contributions hit next quarter, they will already be in the system.

- Mr. Kimery noted that we are receiving very positive responses on the Customer Service Satisfaction reports. The few comments that are troubling are being investigated. He also stated that we are paying approximately 58,000 members per month.

V. DATE OF NEXT MEETING

The date of the next Board of Trustees Meeting will be held on April 15, 2005.

VI. ADJOURNMENT

There being no further business, the meeting was adjourned.